

BENSON CULINARY WATER  
IMPROVEMENT DISTRICT

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Financial Statements

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December 31, 2006 and 2005

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**ACCOUNTANT'S REPORT**

Board of Trustees  
Benson Culinary Water Improvement District  
Benson, Utah

I have compiled the accompanying statements of net assets of the Benson Culinary Water Improvement District (the District) as of December 31, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended, in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The Management's Discussion and Analysis on pages 2 through 5, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

MATTHEW REGEN, CPA, PC

*Matthew Regen, CPA, PC*

June 8, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Benson Culinary Water Improvement District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2006.

### FINANCIAL HIGHLIGHTS

- The total net assets of the District decreased during the calendar year 2006 by \$4,609 to a total of \$883,907.
- The total net assets of the District consist of \$767,085 in capital assets, net of related debt, \$19,000 in restricted net assets and \$97,822 in unrestricted net assets.
- The total long-term liabilities of the District were reduced \$22,225 during the calendar year 2006.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) proprietary fund financial statements and 2) notes to the financial statements.

*Fund financial statements* - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has a proprietary fund, as described below.

*Proprietary funds* - The District has one type of proprietary fund, an enterprise fund. Enterprise funds are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The District's business-type activities are culinary water treatment and distribution. As determined by generally accepted accounting principles, the District's enterprise fund meets the criteria for major fund classification.

*The statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, there will also be a need to consider other non-financial factors.

*The statement of revenues, expenses and changes in net assets* presents information showing how the District's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the

See accountant's report.

timing of related cash flows. Thus, revenues and expenses are taken into account regardless of when cash is received or paid.

*The statement of cash flows* presents information on the cash receipts, cash payments and change in cash resulting from operations, investing and financing activities. This statement answers questions such as where did the cash come from, what was cash used for and what was the change in the cash balance during the reporting period.

*The notes to the financial statements* provide additional information that is essential for a full understanding of the information provided in the financial statements.

## FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$883,907.

By far, the largest portion of the District's net assets (87 percent) reflect its investment in capital assets (e.g., system improvements, machinery and equipment), less depreciation and any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

## STATEMENT OF NET ASSETS

|   |    | Business-type Activities |           |
|---|----|--------------------------|-----------|
|   |    | 2006                     | 2005      |
| Current and other assets                | \$ | 118,331                  | 115,090   |
| Capital assets, net                     |    | 1,154,751                | 1,185,597 |
| Total assets                            |    | 1,273,082                | 1,300,687 |
| Long-term liabilities                   |    | 387,666                  | 409,891   |
| Other liabilities                       |    | 1,509                    | 2,280     |
| Total liabilities                       |    | 389,175                  | 412,171   |
| Invested in capital assets, net of debt |    | 767,085                  | 775,706   |
| Restricted                              |    | 19,000                   | 19,000    |
| Unrestricted                            |    | 97,822                   | 93,810    |
| Total net assets                        | \$ | 883,907                  | 888,516   |

See accountant's report.

## CHANGES IN NET ASSETS

|                        | Business-type Activities |         |
|------------------------|--------------------------|---------|
|                        | 2006                     | 2005    |
| Revenues:              |                          |         |
| Charges for services   | \$ 92,109                | 82,550  |
| Connection fees        | 6,697                    | 16,203  |
| Interest income        | 3,780                    | 2,676   |
| CDBG Grant             | -                        | 105,000 |
| Total revenues         | 102,586                  | 206,429 |
| Expenses:              |                          |         |
| Current expenses       | 61,508                   | 64,442  |
| Depreciation           | 30,846                   | 30,816  |
| Wages                  | 5,082                    | 9,800   |
| Interest expense       | 9,759                    | 9,920   |
| Total expenses         | 107,195                  | 114,978 |
| Change in net assets   | (4,609)                  | 91,451  |
| Net assets – beginning | 888,516                  | 797,065 |
| Net assets – ending    | \$ 883,907               | 888,516 |

Significant changes in the business-type activities include a decrease in operating revenues of \$103,843 over the prior year. The decrease is attributable to not receiving any grants in 2006. Connection fees decreased by \$9,506 in 2006. Another significant change is a \$22,225 reduction in long-term debt due to regular principal payments.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets - The District's investment in capital assets for its business-type activities as of December 31, 2006, amounts to \$1,154,751 (net of accumulated depreciation). The District's investment in capital assets decreased for the current year by \$30,846 due to regular depreciation for the year.

Additional information on the District's capital assets can be found in the footnotes to this financial report.

Long-term liabilities – At December 31, 2006, the District had total bonded debt outstanding of \$387,666, which consists of water bonds used to build the water system.

Additional information on the outstanding debt obligations of the District can be found in the footnotes to this financial report.

See accountant's report.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Benson Culinary Water Improvement District, Nick Galloway, 4411 West 3000 North, Benson, UT 84335.

See accountant's report.

BASIC FINANCIAL STATEMENTS

BENSON CULINARY WATER IMPROVEMENT DISTRICT  
STATEMENT OF NET ASSETS - PROPRIETARY FUND  
DECEMBER 31, 2006 AND 2005

| <u>Assets</u>                                      | <u>2006</u>       | <u>2005</u>      |
|--|-------------------|------------------|
| Cash and investments                               | \$ 89,897         | 75,381           |
| Accounts receivable                                | 20,654            | 31,929           |
| Capital assets, net                                | 1,154,751         | 1,185,597        |
| Water rights                                       | <u>7,780</u>      | <u>7,780</u>     |
| Total assets                                       | <u>1,273,082</u>  | <u>1,300,687</u> |
| <br><u>Liabilities</u>                             |                   |                  |
| Liabilities:                                       |                   |                  |
| Accounts payable and accrued expenses              | 1,509             | 2,280            |
| Non-current liabilities:                           |                   |                  |
| Due within one year                                | 22,435            | 22,264           |
| Due in more than one year                          | <u>365,231</u>    | <u>387,627</u>   |
| Total liabilities                                  | <u>389,175</u>    | <u>412,171</u>   |
| <br><u>Net Assets</u>                              |                   |                  |
| Investments in capital assets, net of related debt | 767,085           | 775,706          |
| Restricted   | 19,000            | 19,000           |
| Unrestricted                                       | <u>97,822</u>     | <u>93,810</u>    |
| Total net assets                                   | <u>\$ 883,907</u> | <u>888,516</u>   |

See accompanying notes and accountant's report.

BENSON CULINARY WATER IMPROVEMENT DISTRICT  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS - PROPRIETARY FUND  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

|                                      | <u>2006</u> | <u>2005</u> |
|--------------------------------------|-------------|-------------|
| Operating revenues:                  |             |             |
| Services                             | \$ 92,109   | 82,550      |
| Connection fees                      | 6,697       | 16,203      |
| CDBG Grant                           | -           | 105,000     |
|                                      | <hr/>       | <hr/>       |
| Total operating revenues             | 98,806      | 203,753     |
|                                      | <hr/>       | <hr/>       |
| Operating expenses:                  |             |             |
| Current expenses                     | 61,508      | 64,442      |
| Depreciation                         | 30,846      | 30,816      |
| Wages                                | 5,082       | 9,800       |
|                                      | <hr/>       | <hr/>       |
| Total operating expenses             | 97,436      | 105,058     |
|                                      | <hr/>       | <hr/>       |
| Operating income                     | 1,370       | 98,695      |
| Non-operating income (expense):      |             |             |
| Interest income                      | 3,780       | 2,676       |
| Interest expense                     | (9,759)     | (9,920)     |
|                                      | <hr/>       | <hr/>       |
| Total non-operating income (expense) | (5,979)     | (7,244)     |
|                                      | <hr/>       | <hr/>       |
| Change in net assets                 | (4,609)     | 91,451      |
| Net assets - beginning of year       | 888,516     | 797,065     |
|                                      | <hr/>       | <hr/>       |
| Net assets - end of year             | \$ 883,907  | 888,516     |
|                                      | <hr/>       | <hr/>       |

See accompanying notes and accountant's report.

BENSON CULINARY WATER IMPROVEMENT DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

|   | <u>2006</u>      | <u>2005</u>      |
|---|------------------|------------------|
| <u>Cash flows from operating activities:</u>  |                  |                  |
| Receipts from customers and users   | \$ 110,081       | 212,056          |
| Payments to suppliers   | (62,279)         | (64,015)         |
| Payments to employees   | <u>(5,082)</u>   | <u>(9,800)</u>   |
| Net cash provided by operating activities   | <u>42,720</u>    | <u>138,241</u>   |
| <u>Cash flows from capital and related financing activities:</u>                        |                  |                  |
| Purchases of capital assets   | -                | (166,572)        |
| Principal payments on bonds   | (22,225)         | (22,064)         |
| Interest payments on bonds  | <u>(9,759)</u>   | <u>(9,920)</u>   |
| Net cash used in capital and related financing activities                               | <u>(31,984)</u>  | <u>(198,556)</u> |
| <u>Cash flows from investing activities:</u>  |                  |                  |
| Interest on investments   | <u>3,780</u>     | <u>2,676</u>     |
| Net cash provided by investing activities   | <u>3,780</u>     | <u>2,676</u>     |
| Net increase (decrease) in cash and cash equivalents                                    | 14,516           | (57,639)         |
| Cash and cash equivalents at beginning of year  | <u>75,381</u>    | <u>133,020</u>   |
| Cash and cash equivalents at end of year  | <u>\$ 89,897</u> | <u>75,381</u>    |
| <u>Reconciliation of operating income to net cash provided by operating activities:</u> |                  |                  |
| Operating income  | \$ 1,370         | 98,695           |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                  |                  |
| Depreciation  | 30,846           | 30,816           |
| Change in assets and liabilities:   |                  |                  |
| Decrease in accounts receivable   | 11,275           | 8,304            |
| Decrease in accounts payable  | <u>(771)</u>     | <u>426</u>       |
| Total adjustments   | <u>41,350</u>    | <u>39,546</u>    |
| Net cash provided by operating activities   | <u>\$ 42,720</u> | <u>138,241</u>   |

See accompanying notes and accountant's report.

BENSON CULINARY WATER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

Note 1 – Summary of Significant Accounting Policies

*Reporting Entity*

The Benson Culinary Water Improvement District (the District) is a special district created to construct and maintain a culinary water distribution system for the residents of a portion of the unincorporated area of Cache County, Utah. The District is governed by a board of five trustees, each of which serves a four year term. The District is not a component unit of another organization.

*Presentation*

The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has a single fund category – a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be recovered primarily through user charges.

The accounting and reporting policies of the District relating to the accompanying financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued prior to December 1, 1989, which do not conflict with or contradict GASB pronouncements.

*Measurement Focus/Basis of Accounting*

The District's proprietary fund is an enterprise fund and its records are maintained on the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the fund are charges to customers for water and connection fees. Operating expenses for the fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

See accountant's report.

## Note 1 – Summary of Significant Accounting Policies (continued)

### *Capital Assets*

Capital assets, which include the water system improvements and equipment, are recorded at historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation of all exhaustible fixed assets used is charged as an expense against the District's operations. Accumulated depreciation is reported on the financial statements. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

|                               |           |
|-------------------------------|-----------|
| Water system and improvements | 50 years  |
| Equipment                     | 5-7 years |

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

### *Cash and Cash Equivalents*

Cash includes amounts in demand deposits as well as short-term investments with a maturity date of three months or less.

### *Equity Classifications*

Equity in the financial statements is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- Restricted net assets – Consists of net assets with constraints placed on the usage whether by 1) external groups such as creditors, grantors or laws and regulations of other governments; 2) law through constitutional provisions or enabling legislation. The District utilizes restricted net assets, before unrestricted net assets, to finance qualifying activities.
- Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

See accountant's report.

## Note 2 – Deposits and Investments

The District follows the requirements for the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This Act requires the depositing of District's funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Utah Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

### *Deposits*

**Custodial Credit Risk** – Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a formal deposit policy for custodial credit risk. As of December 31, 2006 none of the District's bank balances were uninsured and uncollateralized.

### *Investments*

The Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may only be conducted through qualified depositories, certified dealers or directly with the issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standards & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes and bonds; bonds, notes and other evidence of indebtedness of political subdivisions of the state; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in money market mutual fund as defined by the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

The Utah State Treasurer's Office operates the PTIF. The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with SEC as an investment company. The PTIF is authorized and regulated by the Act established the Money Management Council which oversees the activities of the state treasurer and the PTIF, and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

See accountant's report.

## Note 2 – Deposits and Investments (continued)

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administrations fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

The District's investments on December 31, 2006, consisted of the following:

| <u>Investment Type</u>      | <u>Fair Value</u> | <u>Maturities</u><br>(Less than one year) | <u>Quality Rating</u> |
|-----------------------------|-------------------|---|-----------------------|
| State of Utah PTIF          | \$ 77,380         | \$ 77,380                                 | Unrated               |
| Collateralized money market | 1,804             | 1,804                                     | Unrated               |
|                             | <u>\$ 79,184</u>  | <u>\$ 79,184</u>                          |                       |

**Interest Rate Risk** – Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits and fixed rate corporate obligations of 270 to 365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have remaining term to final maturity exceeding two years.

**Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the Act as previously discussed. See the quality ratings on the investment schedules above.

**Custodial Credit Risk** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal investment policy for custodial credit risk in regard to the custody of the District's investments.

**Concentration of Credit Risk** – Concentrations of credit risk is the risk of loss attributed to the magnitude of government's investment in a single issuer. The District's policy for reducing this risk of loss is to comply with the Rules of Money Management Council.

## Note 3 – Receivables

The District has accounts receivable due from residential and commercial customers totaling \$20,654 on December 31, 2006.

See accountant's report.

#### Note 4 – Capital Assets

Capital asset changes occurring for the year ended December 31, 2006, are as follows:

|   | <u>January 1,<br/>2006</u> | <u>Additions</u> | <u>Deletions</u> | <u>December 31,<br/>2006</u> |
|---|----------------------------|------------------|------------------|------------------------------|
| Capital assets not being depreciated:       |                            |                  |                  |                              |
| Land  | \$ <u>2,793</u>            | <u>-</u>         | <u>-</u>         | <u>2,793</u>                 |
| Total capital assets not being depreciated  | <u>2,793</u>               | <u>-</u>         | <u>-</u>         | <u>2,793</u>                 |
| Capital assets being depreciated:           |                            |                  |                  |                              |
| Water system                                | <u>1,506,633</u>           | <u>-</u>         | <u>-</u>         | <u>1,506,633</u>             |
| Equipment                                   | <u>6,239</u>               | <u>-</u>         | <u>-</u>         | <u>6,239</u>                 |
| Total capital assets being depreciated      | <u>1,512,872</u>           | <u>-</u>         | <u>-</u>         | <u>1,512,872</u>             |
| Accumulated depreciation for:               |                            |                  |                  |                              |
| Water system                                | <u>(325,259)</u>           | <u>(30,132)</u>  | <u>-</u>         | <u>(355,391)</u>             |
| Equipment                                   | <u>(4,809)</u>             | <u>(714)</u>     | <u>-</u>         | <u>(5,523)</u>               |
| Total accumulated depreciation              | <u>(330,068)</u>           | <u>(30,846)</u>  | <u>-</u>         | <u>(360,914)</u>             |
| Total capital assets being depreciated, net | <u>1,182,804</u>           | <u>(30,846)</u>  | <u>-</u>         | <u>1,151,958</u>             |
| Total capital assets, net                   | \$ <u>1,185,597</u>        | <u>(30,846)</u>  | <u>-</u>         | <u>1,154,751</u>             |

See accountant's report.

## Note 5 – Long-term Debt

Long-term debt consists of the following:

### *Bonds Payable*

\$223,000 Water Bonds, Series 1992, due to the Utah State Division of Finance in annual installments of \$9,000 through September 2018. The bonds were issued without interest. \$ 106,000

\$223,000 Water Bonds, Series 1992, due to the Utah State Division of Finance in annual installments of \$10,000 through January 2016. The bonds were issued without interest. 93,000

\$220,200 Water Bonds, Series 1993, due to the USDA Rural Development in monthly installments of \$1,082 including interest at 5.125% through June 2033. 188,666

Total bonds payable 387,666

Less current portion (22,435)

Long-term portion \$ 365,231

Long-term debt transactions for the year ended December 31, 2006, were as follows:

|               | Beginning         |           |                 | Ending         | Due Within    |
|---------------|-------------------|-----------|-----------------|----------------|---------------|
|               | Balance           | Additions | Reductions      | Balance        | One Year      |
| Bonds payable | \$ <u>409,891</u> | <u>-</u>  | <u>(22,225)</u> | <u>387,666</u> | <u>22,435</u> |

The following is a summary of the annual payments to maturity:

| Year Ending December 31, | Principal         | Interest       | Totals         |
|--------------------------|-------------------|----------------|----------------|
| 2007                     | \$ 22,435         | 9,549          | 31,984         |
| 2008                     | 22,615            | 9,369          | 31,984         |
| 2009                     | 22,805            | 9,179          | 31,984         |
| 2010                     | 23,005            | 8,979          | 31,984         |
| 2011                     | 23,215            | 8,769          | 31,984         |
| 2012-2016                | 112,634           | 40,287         | 152,921        |
| 2017-2021                | 47,809            | 33,111         | 80,920         |
| 2022-2026                | 41,079            | 23,841         | 64,920         |
| 2027-2031                | 53,047            | 11,873         | 64,920         |
| 2032-2033                | 19,022            | 731            | 19,753         |
| Totals                   | \$ <u>387,666</u> | <u>155,688</u> | <u>543,354</u> |

See accountant's report.

Note 6 – Restricted Net Assets

Restricted net assets represent amounts required to be maintained to satisfy third party agreements or legal requirements. On December 31, 2006 restricted net assets totaled \$19,000, which is the bond reserve required by the Utah State Division of Finance.

See accountant's report.